

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 4135

S E C R E T PARIS 26555

NODIS/CHEROKEE

FROM UNDER SECRETARY ROBINSON

E.O. 11652: GDS

TAGS: ETRD, UR, US

SUBJECT: OIL/GRAIN NEGOTIATIONS

REF: PARIS 26521

1. IF IT IS DECIDED THAT I SHOULD RETURN TO MOSCOW
IN AN EFFORT TO SIGN AN OIL LETTER OF INTENT AND
IF IT IS AGREED THAT I SHOULD TRY A DIFFERENT
AND LESS OPEN OIL PRICE DISCOUNT, I WOULD PROPOSE RETURN-
ING TO THE APPROACH ON WHICH I HAD TENTATIVE ACCEPTANCE
IN PRINCIPLE FROM PATOLICHEV PRIOR TO OUR DEMAND FOR
A STRAIGHT 15 PER CENT DISCOUNT. ALTHOUGH I HAD NOT
ATTEMPTED TO QUANTIFY THAT FORMULA NOR DO I HAVE ANY
ASSURANCE THAT I CAN STILL REVIVE INTEREST IN THIS
APPROACH, I WOULD SUGGEST AN EFFORT AS DISCUSSED IN
PARAS 2 AND 3 BELOW.

2. PATOLICHEV HAS AGREED TO THE FOLLOWING:

A. BOTH U.S. AND SOVIET FLAG TANKERS HAULING GRAIN
FROM THE U.S. SHOULD BE EMPLOYED IN TRANSPORTING SOVIET
OIL BACK TO THE U.S.

B. THE COST OF THIS MOVEMENT WOULD BE GREATER
THAN THAT FOR HAULING OIL IN SUPER TANKERS FROM THE
PERSIAN GULF.

C. THE DELIVERED COST OF SOVIET OIL MUST BE

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ATTRACTIVE IN COMPARISON WITH THE COST OF SAUDI

CRUDE DELIVERED TO THE U.S.

D. THE U.S. WOULD HAVE THE OPTION OF SWAPPING SOVIET OIL WHICH WOULD BE DELIVERED INTO SOUTHERN EUROPE.

3. BASED ON THESE PRINCIPLES I WOULD PROPOSE THE FOLLOWING:

A. AN OIL FREIGHT RATE OF \$12.00 PER METRIC TON WOULD BE ESTABLISHED FOR U.S. FLAG TANKERS. (THIS COULD REDUCE THE USG SUBSIDY BY THE AMOUNT OF PROFIT PROBABLY ON THE ORDER OF \$4.00 PER TON).

B. THE RATE FOR SOVIET TANKERS WOULD BE AT MARKET (BUT NOT ABOVE \$12.00/TON) IF ALLOWED UNDER THE MARITIME AGREEMENT. (WE MAY HAVE TO CONCEDE TO THE SAME FREIGHT RATE PAID ON U.S. FLAG VESSELS).

C. THE CURRENT FREIGHT RATE FOR P.G. TO U.S. OIL IS PROBABLY ON THE ORDER OF \$4.50/TON OR \$7.50 BELOW THE \$12.00 RATE SUGGESTED THE USSR TO U.S. MOVEMENT. THUS FOR THE SOVIET OIL TO BE COMPETITIVELY DELIVERED IN THE U.S. WE WOULD REQUIRE AN ADJUSTMENT OF \$7.50/METRIC TON OR \$1.00 PER BARREL IN THE F.O.B. NOVOROSSISK PRICE BELOW THE PRICE FOR SAUDI MARKER CRUDE WHICH IS NOW AT \$11.51/BBL. RUS TANURA.

D. WE WOULD THEN NEGOTIATE PRICE DIFFERENTIAL FOR DIESEL AND NAPHTHA WHICH COULD PROVIDE FURTHER REDUCTIONS FORM THE EQUIVALENT FOR CRUDE OIL AT \$10.51 (\$11.51 LESS \$1.00) ESTABLISHED ACCORDANCE PARA 3C ABOVE.

E. I WOULD ALSO REQUEST 4 MONTHS DEFERRED PAYMENT TERMS WHICH WOULD PROVIDE A FURTHER REDUCTION OF \$0.17/BBL. FOR THE ADDITIONAL TWO MONTHS (OVER A TWO MONTH BASE AT THREE-FOURTHS PER CENT PER MONTH.

4. HAVING ESTABLISHED THE FORMUW OUTLINED IN PARA 3 AMWKPWE AFCLD PROCEED TO SWAP THIS OIL WITH OTHER U.S. COMPANIES TAKING PERSIAN GULF OIL OR OTHER CRUDE. FOR DELIVERY TO THE U.S. ON A BARREL FOR BARREL BASIS WITH SOVIET OIL MOVING INTO EUROPE. THIS WOULD PROVIDE THE U.S. WITH A NET REDUCTION OF \$1.00

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PER BARREL (\$1.17 WITH THE INTEREST CREDIT) TO BE INCREASED BY ANY FURTHER DISCOUNT WE MIGHT OBTAIN ON THE 3.0 MILLION TONS/YEAR OF REFINED PRODUCTS. THIS ARRANGEMENT WOULD ELIMINATE THE QUESTION OF WINDFALL PROFITS AS THE PRIVATE COMPANIES WOULD HAVE AN OFFSETTING LOSS ON THE P.G. CRUDE TRADED FOR SOVIET OIL PRICED BELOW MARKET.

5. IF THE FREIGHT MARKET SHOULD RISE LIFTING P.G. -U.S. FREIGHT RATES ABOVE THE \$12.00 RATE SET FOR THE USSR- US MOVEMENT WE COULD SHIP THE SOVIET OIL TO THE U.S. AND FURTHER INCREASE OUR \$1.00/BBL. MARGIN OVER THE U.S. DELIVERED COST OF P.G. CRUDE.

6. THERE IS NO ASSURANCE NOW THAT I CAN GET AGREEMENT FROM THE SOVIETS TO THE PRICING FORMULA OUTLINED IN PARA 3 ABOVE; HOWEVER, I BELIEVE WE MIGHT MAKE SOME PROGRESS ALONG THESE LINES AND URGE THAT I BE GIVEN AUTHORITY TO APPROACH PATOLICHEV ON THIS BASIS. IN MY JUDGMENT THIS SHOULD BE NO MORE THAN A ONE DAY EFFORT AS TIME IS RUNNING OUT. EVEN IF I AM UNSUCCESSFUL IN OBTAINING TANGIBLE PROGRESS I BELIEVE WE SHOULD SIGN THE OIL LETTER OF INTENT AS IS--WITH NEGOTIATIONS TO CONTINUE ALONG THE LINES SUGGESTED ABOVE--RELYING ON THE CONTINUING LEVERAGE PROVIDED BY CONTROL OVER ADDITIONAL GRAIN SALES, THE MARITIME AGREEMENT AND THE SOVIET INTEREST IN EXPANDED U.S. INVOLVEMENT IN THE ENERGY DEVELOPMENT EFFORTS.

7. I AM IN A HOLDING PATTERN HERE IN PARIS AWAITING YOUR FURTHER INSTRUCTIONS.
RUSH

NOTE BY OC/T: TEXT AS RECEIVED. CORRECTION TO FOLLOW.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, CAT-C, CHEROKEE 10/14/75, NEGOTIATIONS, GRAINS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PARIS26555
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: P840083-0974
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751055/aaaabxfh.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: 75 PARIS 26521
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 MAY 2003 by CunninFX>; APPROVED <09 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OIL/GRAIN NEGOTIATIONS
TAGS: ETRD, EEWT, UR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006